

FEDERAL RESERVE BANK OF CHICAGO

REPORT OF BUSINESS CONDITIONS IN THE SEVENTH FEDERAL RESERVE DISTRICT

OCTOBER 25, 1919

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Business, generally speaking, continues to reflect the greatly increased buying power growing out of the abnormal wage distribution and agricultural prosperity of the last three years. Manufacturing in most lines in the Middle West is exceedingly active and the people are spending their incomes as freely as though they expected to be able to continue indefinitely on the war time basis.

About the only indication of a distinct tendency toward conservatism is found among the merchants, who despite the lavish buying of luxuries and other merchandise, are carrying comparatively small stocks of merchandise and manufactured products, measured in volume. One factor in this, however, apparently is the limited amount of raw material and the continued high prices, mercantile concerns hesitating to stock up at high prices in face of an inevitable subsequent readjustment to a lower level.

Some Plant Expansion in Evidence

There are indications cropping out here and there of a growing tendency to expand manufacturing plant capacity instead of increasing present plant efficiency in order to care for the present demand. Bankers are beginning to scrutinize their loans more closely, with a view of checking a possible disposition on the part of borrowers negotiating loans ostensibly for commercial purposes when working capital is gradually being absorbed in plant expansion. The menace of such a condition, if it becomes general, lies in the absorption of floating credit by necessitating the use by banks of their own liquid assets in obtaining rediscounts at the Federal Reserve.

The banking situation continues to reflect heavy borrowing all through the Middle West. Cattle feeding and other agricultural purposes, as well as manufacturing, and the continued high price level, call for a use of credit in peace times equal to, if not greater than a year ago when we were at war. Advices from member banks, however, reveal some development of conservatism which is manifesting itself in a closer discrimination in the matter of making loans, with a view of checking the more speculative enterprises in their work of expansion and the forcing of greater economy and development of efficiency in operation, to the end that production may be increased without a corresponding plant expansion.

Capitalizing on a War Basis Continues

The disposition to capitalize war conditions and prices which manifested itself earlier in the year in the advance in land values and increased land movement and later began to develop in the attempt to put wages more permanently on a war basis, continues to crop out in other directions. Shortage of housing in practically all of the manufacturing cities of the district is being taken advantage of by real estate men, not only for the purpose of stimulating increases in rentals but in prices for real property. Rentals have been advanced in the last year from 30 to 50 per cent in Chicago, where the shortage of housing facilities is quite acute. In Detroit there is an even more serious shortage.

Market activity in farm lands in Iowa seems to be less marked but without any notable recession in values, whereas in Wisconsin and in some portions of Illinois the demand for agricultural property is keen and prices are advancing. In some parts of Indiana there is still an active demand but without the prices advancing to the same extent experienced in Iowa. Michigan land, outside of the industrial centers, has been more nearly normal.

Automobile Demand Continues Very Large

The steel strike is reflected in industries dependent upon the product of the steel mills. The automobile industry continues prosperous, the demand apparently being insatiable. In this industry it seems that wages have been ad-

vanced more rapidly than the cost of commodities, in face of the fact that there has been a decrease of about 13 per cent in operating hours per week. The automobile manufacturers estimate an even greater decrease in production because of lower labor efficiency. One notable feature in connection with this industry is the number of different plans that are being devised to finance automobile manufacturers and dealers, some of these involving an increased cost.

Another very serious factor affecting the automobile and kindred industries is the apparent shortage of freight cars to handle the business of the country. Apparently the rolling stock of the railroads in the Middle West is below the requirements of this section and a considerable period of extensive building is regarded as necessary to meet these requirements. An instance of this is that automobile manufacturers for some months have been compelled to drive cars from the factory on their own wheels for delivery as far distant as a thousand miles.

Labor Shortage Less Apparent

In some lines of manufacture the shortage of labor is reported as not being quite so apparent as it was a few months ago, but there continues to be a great deal of unrest, which is manifesting itself in the dissatisfaction of workers with their work. One indication, however, that this is not due so much to the wages received as to other causes, lies in the absence of hesitation on the part of employees to take a few days off for recreation and the disposition to change from one employer to another without any compunction. This necessarily hinders production.

Business men are watching closely developments in the great steel strike. The action in checking disorder and lawlessness at Gary is reflected in the business situation in this district in a lesser manifestation of apprehension than was in evidence at the beginning of the strike.

Demand for Steel and Building Materials Good

The tonnage being booked by the big steel companies operating at Gary is reported on an average to be very satisfactory. The demand for steel in such lines as implement and automobile manufacturing is in excess of the ability to produce the material, and western steel makers say that they are not in a position to accept further orders for shipment prior to February or March. There appears to be a large demand for steel, which is more or less held in abeyance on account of strikes not only in the steel industry but in various localities in building and other trades. The export demand is large, and once the labor situation clears up, predictions are for an unusually good demand for steel during the entire coming year.

In building lines the demand for material is marked, due somewhat of course to the settlement of the Building Trades strike in Chicago, consequently all of the building material fabricators are well supplied with work. The demand for steel continues light from railroads, and the indications are that no large commitments will be made before the first of the year.

Building Activities at Chicago Improving

The building situation in Chicago is somewhat improved, but the effect of the settlement of the strike and lockout of the Building Trades, entailing a wage scale of a dollar an hour, has been to add considerably to the cost of building and construction. There also appears to be a temporary scarcity of skilled building labor in Chicago, which is resulting in some contractors paying premiums in the form of overtime in order to get men.

There is greater stability in the prices of material, although some increases are still being recorded. In spite of the lateness of the season, there has been undertaken a fair amount of building and construction during the last month. The higher incomes from leased property is stimulating residential and apartment construction.

Live Stock Receipts at Principal Markets Smaller

The average price of beef and mutton is considerably lower than a year ago notwithstanding the smaller receipts at the principal markets during September compared with the previous year, which showed a decrease of 23 per cent for cattle, 18 per cent for calves, and a small decrease in the receipt of hogs. The prices of hogs are the lowest in two years. There are big stocks of pork abroad, which Germany would absorb if she could finance the operation. With cheaper corn in sight there are predictions of a \$12 price for hogs. Receipts of sheep increased 26 per cent. The receipts for the first nine months of the year showed a decrease of 10 per cent for cattle, 1 per cent for calves and an increase of 29 per cent for sheep. The increase in the receipts of sheep are due to big runs which have arrived from the dry northwest, a lot of lambs being light in weight.

Receipts of live stock at the Chicago market during the four weeks ended October 11, compared with the corresponding period of 1918, are as follows:

	Cattle	Calves	Hogs	Sheep
1919.....	289,337	53,438	412,083	647,867
1918.....	372,892	41,790	462,050	699,089
Increase	*83,555	11,648	*50,017	*51,222
*Decrease				

The drouth districts of the northwest have also contributed to shipment of cattle, excepting beef stock which is being fed for the market. In consequence there have been big runs of light cattle selling for \$10 to \$12 per hundred. Declining markets and high prices for feeds, however, are contributing to losses for cattle raisers, who have to fall back on their cushion of profits made in the last two years.

Situation in Bituminous Field Disturbing

There has been an active business in coal. The indications are that there will be a big shortage of coal stocks this winter, especially if the miners' strike already called for November 1 in the bituminous field materializes. The big export demand for coal is reflected in the mid-west bituminous market. The demand for all grades of coal now far exceeds the supply, hence any cessation of coal production in the Indiana-Illinois fields will seriously affect industry.

Living Costs are Still on a High Level

Food prices continue to be a disturbing factor, and, while there have been some recessions in particular lines, such as meats, with wheat bringing big premiums, buyers of flour are cautious and show no disposition to stock up. Receipts of butter are light, the demand heavy, with prices rising, while a considerable quantity is being consumed from cold storage. Egg receipts are light and the quality poor, with prices advancing. Wholesale grocers are making large purchases and are increasing their general stocks. The candy industry is booming in the Middle West and the demand for sweets is abnormally large.

Crop conditions are now more favorable. The dry fall delayed wheat sowing but recent rains are helping overcome this. The acreage, however, in the excessively dry sections is smaller than last year. The corn crop is excellent and in very fine condition in most localities in this district, husking now being under way.

Buying of Silks and Luxuries is Heavy

The textile trades report an excellent demand but it reflects some extravagance. One large hosiery firm reports there is little market for other than silk hose, fine grades of lisle going a-begging. The demand for expensive silk Jersey cloth is very large, while that for rugs and floor coverings is more nearly equal to the supply than almost any other class of articles. All this shows the demand for luxuries and goods which might be called non-essential. Production of most lines of dry goods is very much under normal and the supply far from meeting the demand, prices of cotton, woolen and silk goods consequently are higher than they were a month ago, with the market strong.

Business in the shoe industry for the last 30 days has been very brisk, orders being booked freely from country merchants for the coming season at satisfactory prices.

Money is in Strong Demand

Reports from selected member banks show that loans generally have expanded sharply compared with a month ago. This is especially true of the Reserve city banks in the district outside of Chicago. There is a disposition of loans secured by United States war obligations to recede in Detroit and in the country districts, but this is not reflected in the Chicago selected banks. Net demand deposits have run off in the last month in the aggregate at all the centers, while time deposits show an increase.

Chicago bank clearings for the first 17 days of October, aggregated \$1,550,772,000, an increase of \$260,676,000, compared with the corresponding period of 1918.

Exchanges at nineteen leading clearing house centers in the Seventh Federal Reserve District aggregated \$465,295,000 for the first fifteen days of October, an increase of \$84,638,000 compared with the corresponding period of 1918.

SELECTED MEMBER BANK STATISTICS—SEVENTH DISTRICT

(000's omitted)

	Chicago —44 Member Banks—			Detroit —12 Member Banks—			Other —44 Member Banks—		
	Jan. 3	Sept. 12	Oct. 10	Jan. 3	Sept. 12	Oct. 10	Jan. 3	Sept. 12	Oct. 10
Loans—									
Secured by U. S. war obligations	\$61,160	\$73,353	\$75,786	\$ 8,720	\$11,661	\$10,529	\$13,420	\$16,377	\$14,668
All other loans and investments	846,008	634,447	698,206	244,085	264,455	273,522	280,939	278,682	295,492
Reserve Balance with Federal									
Reserve Banks	108,825	122,690	119,616	21,886	28,494	27,919	25,241	29,158	27,893
Cash in Vault	44,555	38,739	39,619	13,821	15,379	14,723	15,811	14,331	13,927
Deposits—									
Net demand	794,398	902,202	862,499	162,048	223,573	211,892	209,707	248,426	231,043
Time	149,859	169,309	172,051	155,896	181,280	183,525	89,211	101,027	106,490
Government	13,962	33,404	29,353	13,964	10,764	6,141	6,189	10,098	7,519
Bills Payable and Rediscounts—									
Collateral Notes	37,735	40,067	37,852	12,154	23,783	17,590	13,380	16,787	21,419
Bills Rediscounted	10,186	12,155	23,769	412	3,486	4,016	16,191	4,111	9,754

RECEIPTS AND SHIPMENTS OF IMPORTANT COMMODITIES AT CHICAGO

(000's omitted)

	Receipts				Shipments			
	August		September		August		September	
	1919	1918	1919	1918	1919	1918	1919	1918
Flour, barrels	878	686	1,074	919	663	384	652	597
Wheat, bushels	21,413	27,250	20,218	14,872	14,827	17,429	15,440	10,228
Corn, bushels	3,296	5,254	7,554	9,530	1,910	2,728	2,603	2,857
Oats, bushels	12,318	22,765	8,940	11,417	8,321	9,360	6,506	8,730
Cured Meats, pounds	17,790	20,270	11,413	22,439	82,987	73,214	100,097	66,371
Fresh Meats, pounds	93,466	105,686	67,095	101,389	152,057	121,638	175,611	113,058
Lard, pounds	11,339	8,909	6,230	7,260	49,199	15,708	55,980	22,137
Cheese, pounds	18,680	14,365	20,523	17,156	31,079	6,026	41,025	5,368
Butter, pounds	34,424	27,087	22,781	21,134	33,884	18,834	40,540	16,981
Eggs, cases	412	459	320	337	162	213	219	284
Potatoes, bushels	732	702	1,611	1,877	214	169	680	446
Hides, pounds	17,604	9,951	14,309	11,115	22,183	12,399	33,839	8,906
Lumber, thousand feet	170	208	205	171	87	78	93	68

BUILDING PERMITS OF SEVENTH FEDERAL RESERVE DISTRICT CITIES

City	—September, 1919—			—September, 1918—		
	No. of Buildings	Estimated Cost		No. of Buildings	Estimated Cost	
Cedar Rapids, Iowa	69	\$ 445,000		17	\$ 63,000	Per Cent Gain
Chicago, Illinois	654	13,483,600		200	2,447,600	Per Cent Loss
Decatur, Illinois	78	209,700		20	71,495	
Des Moines, Iowa	150	1,012,330		67	1,033,400	
Detroit, Michigan	2,553	17,343,085		717	2,659,424	
Dubuque, Iowa	33	118,680		5	11,130	
Fort Wayne, Indiana	22	56,475		83	189,655	
Grand Rapids, Michigan	156	270,705		64	32,811	
Indianapolis, Indiana	749	1,179,469		437	389,519	
Jackson, Michigan	99	234,330		42	236,765	
Lansing, Michigan	201	317,825		23	13,585	
Milwaukee, Wisconsin	448	2,464,778		253	553,404	
Peoria, Illinois	89	148,325		23	90,785	
Saginaw, Michigan	253	238,133		42	49,533	
Sioux City, Iowa	151	610,116		36	122,950	
South Bend, Indiana	184	626,519		99	183,766	
Springfield, Illinois	85	1,154,435		47	76,000	
Terre Haute, Indiana	181	99,983		41	32,077	

Government estimates on the principal crops in the States of Illinois, Indiana, Iowa, Michigan and Wisconsin, excluding those counties which are not in the Seventh Federal Reserve District, compare as follows:

Crop	Acreage 1919	Forecast of Production Based on Condition October 1, 1919	Acreage 1918	Production 1918
	Acres	Bushels	Acres	Bushels
Corn	24,178,000	916,881,000	35,346,000	895,138,000
Oats	14,118,000	441,272,000	14,923,000	640,005,000
Beans	353,000	5,290,000	543,000	4,887,000

NOTE—Building and Construction statistics compiled by the F. W. Dodge Company.